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EMPIRICAL STUDY ON NONE PERFORMING ASSETS OF PUBLIC AND PRIVATE SECTOR BANKS

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ABSTRACT

Non-performing Asset being an important parameter in the analysis of financial performance of a bank as it results in decreasing margin and higher provisioning requirements for doubtful debts. NPA is a virus affecting banking sector. It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks. The motive of present study is to access the non – performing assets of selected public and private sector banks and its impact on profitability & to see the relation between Net Profits & Net NPA. The study uses the annual reports of selected 10 public and private sector banks respectively for the period of three years from 2012-2013 to 2014-15. The data has been analyzed by using tables and coefficient of correlation. The important point to be noted is that the decline of NPA is essential to improve profitability of banks. Advances provided by banks need to be done pre-sanctioning evaluation and post-disbursement control to constrain rising non-performing assets in the Indian Banking sector. Performance of both public and private sector banks is declining due to mismanagement of funds.

KEYWORDS: Non-Performing Assets, Gross Non-Performing Assets, Net Non-Performing Assets, Profitability and Mismanagement

INTRODUCTION

The financial sector of any economy, with banking sector at its core, plays an integral part in its development, growth and progress. Th0omas (1995) opined that the banks are not merely dealers in money but are in fact dealers in development. Economists have expressed a variety of opinions on the effectiveness of banking systems in promoting and facilitating economic development. On one hand, where Cameron (1977) has termed bank as an economic institution, which is expected to be more directly and more positively related to the performance of the economy, Sharma (1974) considered bank to be the mart of the world, the nerve centre of the economies and finance of a nation and the barometer of its economic perspective. It has also been pointed out that the strength of an economy depends upon its financial system which further depends on the healthy banking system. In their traditional role banks generate savings from masses and lend money for productive use in the form of loans and credits. The savings so generated are invested in those projects and purpose to ensure balanced regional growth and sustainable development of the economy. In their modern role banks serve the society in a much bigger way with a socio economic development oriented outlook (Zacharias Thomas, 1995). Today, the bank has shifted from brick model to click model. The functions like micro financing, financial inclusion, venture capital, involvement management, online banking etc. has actually transformed the pace of the growth of the economy. Similarly, banks in India have played a pivotal role in mobilisation of savings and have helped in stimulating the economic development.

To have high probability of success, organizations must maintain good management control systems. But, the control measures as adopted in manufacturing organizations cannot be adopted as such in service organizations particularly, in the banking sector. Basically bank controlling means there is good harmony among profitability, growth and risk taking factors. It embraces the fields of management, planning, balance-income analysis, bank calculation, control, coordination and organization (Zoltan, et.al, 2013).

Amongst the various desirable characteristics of a well-functioning financial system, the maintenance of a few non-performing assets (NPA) is an important one (Rao, 2013). NPA usually refers to non-performing assets and the lenders consider it as those assets that are not fetching benefits to them. The word is not new to the bankers. It is regular but disguised loan asset (Tiwari and Sontakke, 2013). NPAs beyond a certain level are indeed cause for concern for everyone involved because credit is essential for economic growth and NPAs affect the smooth flow of credit (Rajeev, Meenakshi and Mahesh, 2010). Therefore, while sanctioning credit the banker should appraise the project reasonably or else it leads to the non-repayment of loans and advances. Most of the banks today in India are facing the default risk wherein some part of the profit is reserved for covering the non-performing assets.

REVIEW OF LITERATURE

Mallick and Sarkar et. al. (2010) analyzed certain properties of NPAs in Indian Banks over the 1990s, when liberalization was introduced by opening up a significant portion of the public sector, allowing private banks to do business. They arrive at three conclusions for emerging India’s banking sector. First, NPAs (as a ratio of loans and advances) were significantly sticky over time. Second, larger NPAs were associated with larger advances and vice-versa. Third, NPAs did not seem to have spiraled out of control over the 1990s. A simple cointegration test was carried out and a set of dynamic graphs, using notions of ‘fibration’, was presented to support the results. **Kavitha. N (2012),** emphasized on the assessment of nonperforming assets on profitability its magnitude and impact. The study observed that there is increase in advances over the period of the study. However, the decline in ratio of Non-performing Assets indicates improvement in the assets quality of SBI groups, Nationalized Banks and Private Sector Banks. Further **Toor N.S. (1994)** stated that recovery of non-performing assets through the process of compromise by direct talks rather than by the lengthy and costly procedure of litigation. It was suggested that by constant monitoring, it is possible to detect, the sticky accounts, the incipient sickness of the early stages itself and an attempt could be made to review the unit and put it back on the road to recovery. Adding up **Debarsh And Sukanya Goyal (2012)** emphasized on management of non-performing assets in the perspective of the public sector banks in India under strict asset classification norms, use of latest technological platform based on Core Banking Solution, recovery procedures and other bank specific indicators in the context of stringent regulatory framework of the RBI. **Siraj. K. K & Prof. (Dr). P. Sudarsanan Pillai** says that NPA is a virus affecting banking sector. It affects liquidity and profitability, in addition posing threat on quality of asset and survival of banks.

OBJECTIVES OF THE STUDY

- To study the impact of NPA on selected banks.
- To access the performance of selected Banks.
- To study the relationship between Net profit and Net NPA of selected public and private sector banks.

RESEARCH METHODOLOGY

Research Methodology is a way to find out the result of a given problem on a specific matter or problem that is also referred as research problem. In Methodology, researcher uses different criteria for solving/searching the given research problem. Different sources use different type of methods for solving the problem. If we think about the word "Methodology", it is the way of searching or solving the research problem. (Industrial Research Institute, 2010).Present research methodology requires gathering relevant data from the annual reports of 10 Public and Private sector banks on basis of market capitalisation and compiling data in order to critically analyze the Net Profit and Net NPA and arrive at a more complete understanding about performance of selected banks. The study uses the annual reports of selected for the period of three years from 2012-13 to 2014-15. The data has been analyzed by using tables and coefficient of correlation. Table is used to compare net NPA & net profits of selected banks. By using the coefficient of correlation we want to determine whether there is any relation between Net Profits and Net NPA or not. This research is based on secondary data.The conclusion on the bases of analysing the data collected through Annual reports of past three years for the selected public and private sector banks.

RELATIONSHIP BETWEEN NET NPA & NET PROFITS OF PUBLIC AND PRIVATE SECTOR BANKS

Relationship between Net NPA and Net Profit is determined by using Pearson's correlation. The data is gathered from the annual reports of banks for the three consecutive years i.e 2012-2013 to 2014-15 and further a comparative view of public and private sector is been analyzed on the basis of Pearson's Correlation. The correlation is being denoted by R1, R2 and R3 for public sector banks and r1,r2 and r3 for private sector banks respectively. Below mentioned is the statistical formula for calculating Pearson's Correlation.

Formula: $$r = \frac{N\sum dxdy-\sum dx\sum dy}{\sqrt{(\sum dx^2-(\sum dx)^2)} * \sqrt{(\sum dy^2-(\sum dy)^2)}}$$

Table 1: Calculation of Correlation between Net Profit & Net NPA of Public Sector Banks: (In crores)

	Net Profit(X)			dx=X-X			Dx²			Net NPA(Y)			dy=Y-Y			Dy²		
Nationalised Banks	**2013(X1)**	**2014(X2)**	**2015(X3)**	**Dx1**	**DX2**	**Dx3**	**(Dx1)²**	**(Dx2)²**	**(Dx3)²**	**2013(Y1)**	**2014(Y2)**	**2015(Y3)**	**Dy1**	**Dy2**	**Dy3**	**(Dy1)²**	**(Dy2)²**	**(Dy3)²**
Allahabad Bank	**1185**	**1,172**	**621**	-2524	-1,851	-2,282	6369516	3426127	5207980	**4,127**	**5,722**	**5,979**	-1,921	-2,584	-4,038	3691163	6678038	16306413
Bank of Baroda	**4481**	**4,541**	**3,398**	772	1,518	495	595552	2304567	245451	**4,192**	**6,035**	**8,069**	-1,856	-2,271	-1,948	3444662	5158531	3792795
Bank of India	**2749**	**2,729**	**1,709**	-960	-294	-1,194	920928	86277	1425827	**5,947**	**7,417**	**13,518**	-101	-889	3,501	10138	789912	12253990
Canara Bank	**2872**	**2,438**	**2,703**	-837	-585	-200	700402	342003	40148	**5,278**	**5,965**	**8,740**	-770	-2,341	-1,277	592792	5478127	1630499
Indian Bank	**1581**	**1,159**	**1,005**	-2128	-1,864	-1,898	4527805	3474701	3601742	**2,384**	**2,764**	**3,147**	-3,664	-5,542	-6,870	13422728	30717787	47197514
Oriental Bank of Commerce	**1328**	**1,139**	**778**	-2381	-1,884	-2,125	5669399	3547911	4517739	**2,903**	**3,904**	**4,816**	-3,145	-4,402	-5,201	9893164	19373906	27047905
Punjab National Bank	**4748**	**3,343**	**3,062**	1039	320	159	1078835	102125	25148	**7,237**	**9,917**	**15,397**	1,189	1,611	5,380	1412532	2595289	28939020
Union Bank of India	**2158**	**1,696**	**1,782**	-1551	-1,327	-1,121	2405818	1760266	1257448	**3,353**	**5,340**	**6,919**	-2,695	-2,966	-3,098	7260977	8796681	9597790
State Bank of India	**14105**	**10,891**	**13,102**	10396	7,868	10,199	108076400	61908099	104010830	**21,956**	**31,096**	**27,591**	15,908	22,790	17,574	253079736	519387291	308830714
IDBI Ltd.	**1882**	**1,121**	**873**	-1827	-1,902	-2,030	3337637	3616083	4119317	**3,100**	**4,902**	**5,993**	-2,948	-3,404	-4,024	8688582	11585174	16196439
				-1	0	2	133682292	80568158	124451630				-2	3	-2	301496474	6105,60,736	4717,93,080
	x 1 =3709	x 2 =3,023	x 3 =2,903							y1=6,048	y2=8,306	y3=10,017						

Note:-Value of 'x' is derived by taking the average of X1,X2,X3 respectively and similarly value of 'y' is derived the taking the averages of Y1,Y2,Y3 respectively.

Table 1 depicts relationship of NET Profit & Net NPA of selected public sector banks. It is clearly evident from the above stated stats that by the end of financial year 2014-2015 that Net Profits of Allahabad Bank, Bank of Baroda, Bank of India, Indian bank, Oriental Bank of Commerce, Punjab National bank and IDBI Ltd. are decreasing and whereas on the other hand Net NPA are increasing. This states that majority of the public sector banks are not performing

efficiently. On the other side the Pearson's correlation values for the three connective years: 2013(r1) =0.9744, 2014(r2) =0.9551 and 2015(r3) =0.9085 reflect the strong positive relation between the Net Profits and Net NPA's. This shows performance of banks is declining due to mismanagement of funds.

Table 2: Calculation of Correlation between Net Profit & Net NPA of Private Sector Banks: (In Crores)

	Net Profit(X)			dx=X-X			Dx²			Net NPA(Y)			dy=Y-Y			Dy²		
	2013(X1)	2014(X2)	2015(X3)	Dx1	DX2	Dx3	$(Dx1)^2$	$(Dx2)^2$	$(Dx3)^2$	2013(Y1)	2014(Y2)	2015(Y3)	Dy1	Dy2	Dy3	$(Dy1)^2$	$(Dy2)^2$	$(Dy3)^2$
ING Vysya Bank Ltd.	**456**	**613**	**658**	-2246	-2626	-2581	5046605	6893408	6659703	**52**	**9**	**102**	-399	-93	-75	158810	8630	5625
The Federal Bank Ltd.	**838**	**839**	**1006**	838	839	1006	702529	703736	1011533	**432**	**322**	**373**	-19	220	196	363	48207	38522
The Karur Vysya Bank Ltd.	**550**	**430**	**464**	550	430	464	302852	184556	215556	**109**	**140**	**281**	-342	38	104	117142	1437	10810
Axis Bank Ltd.	**5179**	**6218**	**7358**	5179	6218	7358	26826495	38659420	54137515	**704**	**1025**	**1317**	253	923	1140	64075	851228	1298939
HDFC Bank Ltd.	**6900**	**8765**	**10700**	6900	8765	10700	47613864	76816636	114491070	**469**	**820**	**0**	18	718	-177	322	515567	31329
ICICI Bank Ltd.	**8325**	**9810**	**11175**	8325	9810	11175	69313451	96245518	124888448	**2231**	**3298**	**6256**	1780	3196	6079	3166834	10214160	36948527
Indusind Bank Ltd.	**1061**	**1408**	**1794**	1061	1408	1794	1126103	1982520	3217431	**137**	**184**	**210**	-314	82	33	98747	6732	1121
Kotak Mahindra Bank Ltd.	**1361**	**1503**	**1866**	1361	1503	1866	1851559	2257566	3481881	**311**	**574**	**609**	-140	472	432	19485	222369	186693
YES Bank	**1301**	**1618**	**2005**	1301	1618	2005	1691768	2617212	4021469	**7**	**26**	**88**	-444	-76	-89	197145	5765	7971
The Jammu & Kashmir Bank Ltd.	**1055**	**1182**	**509**	1055	1182	509	1113236	1398235	258674	**55**	**102**	**1236**	-396	0	1059	156602	0	1122159
				24325	29146	34296	155588462	227758808	312383280				-3	5479	8702	3979525	11874096	39651695
	x1=2703	X2=3238	X3=3753							y1=451	Y2=102	Y3=177						

Note:-Value of 'x' is derived by taking the average of X1,X2,X3 respectively and similarly value of 'y' is derived the taking the averages of Y1,Y2,Y3 respectively.

Table 2 depicts relationship of NET Profit & Net NPA of selected private sector banks. It is clearly evident from the above stated stats that by the end of financial year 2014-2015 that Net Profit of HDFC Bank Ltd.is increasing and whereas on the other hand Net NPA are decreasing and vice versa for The Jammu & Kashmir Bank Ltd. This states that HDFC Bank Ltd. is god at managing finance and The Jammu & Kashmir Bank Ltd. is the worst at managing funds. On the other side the Pearson's correlation values for the three connective years: 2013(r1) = 0.8162588,2014(r2)= 0.8242839and 2015(r3)= 0.5930386 reflect the positive relation between the Net Profits and Net NPA's for 2013 and 2014. For the financial year ending 2015 there a moderate positive correlation. This shows performance of banks is declining due to mismanagement of funds.

FINDING, SUGGESTIONS AND CONCLUSIONS

- Net Profits of Allahabad Bank, Bank of Baroda, Bank of India, Indian bank, Oriental Bank of Commerce, Punjab National bank and IDBI Ltd. are decreasing and whereas on the other hand Net NPA are increasing.
- Performance of both public and private sector banks is declining due to mismanagement of funds.
- Positive relationship between Net Profits and Net NPA is due wrong choice of clients.
- There is a negative impact on liquidity of banks.
- Banks are unable to provide credit to new customers due to lack of funds due to Net NPA

Further, the NPA drastically impact liquidity as it gets blocked leading to lack of enough cash in hand which lead to borrowing money for short period of time from outside which lead to additional cost to the bank. Difficulty in operating the functions of bank is another cause of NPA. Due to lack of money Routine payments and dues are not paid on time. In case of bank is facing problem of NPA then it adversely affect the value of bank in terms of market credit. It will lose its goodwill and brand image because as we have discussed earlier that bank is not able to pay its dues on time and its

negative impact is that people start withdrawing their money from bank which then cause liquidity problem and also decrease in credibility. Time and efforts of management is another indirect cost which bank has to bear due to NPA otherwise time and efforts of management in handling and managing NPA would have been diverted to some fruitful activities, which would give good returns. Another impact of reduction in profitability is low ROI (return on investment), which adversely affect current earning of bank. So NPA not only affect current profits but also future stream of profits, which may lead to loss of some long-term beneficial opportunity.

SUGGESTIONS

- Advances provided by banks need to be done pre-sanctioning evaluation and post-disbursement control so that NPA can decrease.
- Fortnightly review should be done at bank level to avoid occurrence of NPA.
- Proper selection of borrowers & follow ups required to get timely payment.
- Special cell should be made at zonal level to review NPA’s.

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